

Endowment Fund Investment Board

Analyst: Houston

Historical Summary

OPERATING BUDGET	FY 2005 Total App	FY 2005 Actual	FY 2006 Approp	FY 2007 Request	FY 2007 Gov Rec
BY FUND CATEGORY					
Dedicated	553,000	483,500	568,200	653,900	652,500
Percent Change:		(12.6%)	17.5%	15.1%	14.8%
BY OBJECT OF EXPENDITURE					
Personnel Costs	341,500	324,700	354,100	400,300	399,500
Operating Expenditures	206,500	153,600	206,600	242,600	242,600
Capital Outlay	5,000	5,200	7,500	11,000	10,400
Total:	553,000	483,500	568,200	653,900	652,500
Full-Time Positions (FTP)	4.00	4.00	4.00	4.00	4.00

Division Description

The Endowment Fund Investment Board is responsible for managing the investments of the endowment funds (§57-721), the State Insurance Fund (§72-912), and the Judge's Retirement Fund (§1-2008).

The State Legislature created the Endowment Fund Investment Board in 1969 (Idaho Code §57-718), after the passage of a constitutional amendment in 1968. Before that, the State Treasurer had been responsible for the management of the state's endowment assets.

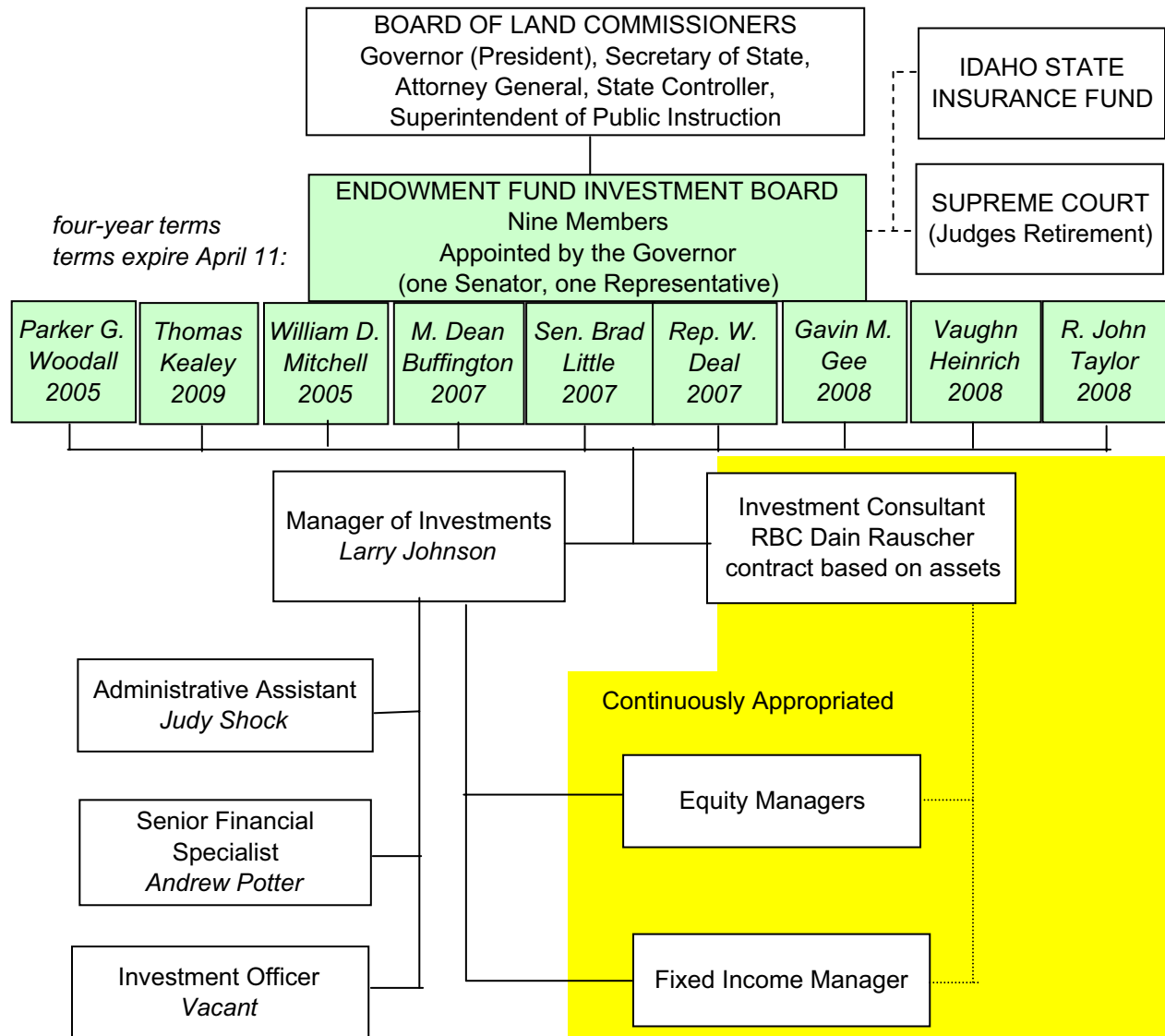
The 1998 legislature approved four pieces of legislation (HJM 9, HJR 6, HJR 8, and HB 643aa) that began the latest round of "Endowment Reform". 1) HJM 9 requested that Congress allow proceeds from the sale of public school endowment lands to be deposited into a land bank to be used to purchase other lands. Congress later approved the memorial. 2) HJR 6 proposed amendments to the state constitution to change the word "disposal" to "sale" and to allow a land bank. Voters approved the constitutional amendment but the Supreme Court later invalidated the amendment, ruling that the amendment contained two questions and was not put properly before the people. The land board resubmitted the constitutional amendment regarding the land bank as HJR 1 in 2000 and the electorate approved the amendment in November of 2000. 3) HJR 8 proposed amendments to the State Constitution to allow the permanent fund to be invested rather than loaned, to create an earnings reserve, and to allow for payment of administrative costs from the earnings reserve. Voters approved that constitutional amendment in November of 1998. 4) HB 643aa of 1998 set up the distribution mechanisms necessary for the permanent funds, the earnings reserve and the income funds. The bill moved the Endowment Fund Investment Board from the Governor's Office to the Land Board effective July 1, 2000. Therefore, actual expenditures before FY 2001 are shown in the Executive Office of the Governor. The legislation also set up a land bank, and changed the makeup of the Board. The makeup of the nine member Board changed to remove the Superintendent of Public Instruction and the Director of the Department of Finance and replaced them with two "public members from the citizenry at large who are knowledgeable and experienced in financial matters and the placement or management of investment assets" (§57-718). SB 1107 of 1999 changed the effective date of certain sections of HB 643aa to allow investment in equities effective February 15, 1999.

Furthermore, HB 690aa of 1998 established the Capitol Commission and the Capitol Endowment from the former Public Building Endowment. The legislation became effective on July 1, 1998 creating a potential conflict with HB643aa which became effective July 1, 2000. However, during the 2000 session, the legislature resolved that conflict by repealing the Public Building Endowment.

Endowment Fund Investment Board

Agency Profile

Analyst: Houston



Fund Sources	FY 2005 Expenditures	Percent of Total	FY 2006 Orig. Approp.	FY 2007 Request
1. Endow Earnings Reserve Admin (0482-70)	350,700	72.5%	399,400	452,300
Amendments to the Idaho State Constitution, effective July 1, 2000, allowed the legislature to appropriate administrative costs from the endowment earnings. The legislature provides a fixed appropriation for the salaries and operating costs of the staff and a continuous appropriation for external investment costs. Separate statutory changes to the Capitol Endowment did not specify administrative uses by the Endowment Fund Investment Board.				
2. Miscellaneous Revenue Fund (0349-00)	132,800	27.5%	168,800	201,600
The Endowment Fund Investment Board invests certain balances of the State Insurance Fund. This constituted approximately 27.5% of the Board's investments in FY 2005. The appropriation is adjusted annually to insure that earnings pay for the administrative costs of managing the State Insurance Fund portion of the Board's portfolio.				
Total	\$ 483,500	100.0%	\$ 568,200	\$ 653,900

Endowment Fund Investment Board

Agency Profile

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Profile of Key Services Provided

Millions of Dollars	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
End of Year Market Values						
1. Public School Permanent Endowment	\$556.0	\$511.7	\$441.5	\$436.2	\$500.6	\$537.2
2. Public School Earnings Reserve Fund	0.0	16.2	2.8	4.5	15.5	31.5
3. Pooled Endowments Permanent Funds	255.5	234.8	201.5	199.4	227.6	243.5
4. Pooled Endowments Earnings Reserves	0.0	24.9	18.0	14.8	17.7	22.4
5. Capitol Endowment	0.0	3.3	3.3	3.3	6.2	8.3
6. Subtotal Endowments	\$811.5	\$790.9	\$667.1	\$658.2	\$767.7	\$842.8
7. State Insurance Fund	294.0	293.2	290.1	311.8	357.8	413.4
8. Judges' Retirement Fund	0.0	0.0	46.9	46.8	51.2	53.7
9. Total Funds under Management	\$1,105.5	\$1,084.0	\$1,004.1	\$1,016.8	\$1,176.7	\$1,309.9

Endowment Funds - From Accrual-Based Annual Audits Restated to FY 2005

Public Schools Permanent Fund

10. Beginning Value July 1 Restated	\$527.3	\$556.0	\$511.7	\$441.5	\$436.2	\$500.6
11. Lands Contributions	35.8	1.7	1.4	2.2	.8	1.6
12. Change in Market Value	(7.2)	(46.0)	(71.5)	(7.6)	63.6	35.0
13. Public School Permanent Fund Balance	\$556.0	\$511.7	\$441.5	\$436.2	\$500.6	\$537.2
14. Change in Market Value/Beginning Value	-1.4%	-8.3%	-14.0%	-1.7%	14.6%	7.0%

Loss Payback Calculation: After the end of five years, the Public School Perm Fund is \$26.5 million below the loss benchmark. This is calculated starting with an FY 2005 ending value of \$537.2 million less contributions of \$7.7 million less the FY 2000 ending value of \$556 million.

Public Schools Earnings Reserve Fund

15. Beginning Value July 1 Restated		\$0.0	\$16.2	\$2.8	\$4.5	\$15.5
16. Lands Contributions		46.9	37.4	33.7	46.0	37.9
17. Lands Expenses		(7.3)	(8.8)	(9.7)	(8.9)	(12.2)
18. Income from Investments	34.1	21.3	13.2	10.4	11.6	13.6
19. EFIB Expenses		(1.3)	(2.8)	(2.2)	(1.9)	(2.4)
20. Change in Market Value		(5.9)	(4.8)	6.7	2.0	2.1
21. Distributions to beneficiaries	(34.1)	(37.5)	(47.7)	(37.1)	(37.8)	(23.0)
22. Ending Public Schools Earnings Reserve	\$0.0	\$16.2	\$2.8	\$4.5	\$15.5	\$31.5

Pooled Endowments Permanent Fund

23. Beginning Value July 1 Restated	\$239.1	\$255.5	\$234.8	\$201.5	\$199.4	\$227.6
24. Lands Contributions	19.8	.2	.1	.2	.0	.1
25. Change in Market Value	(3.3)	(21.0)	(33.4)	(2.3)	28.2	15.8
26. Pooled Permanent Fund Balances	\$255.5	\$234.8	\$201.5	\$199.4	\$227.6	\$243.5

Pooled Endowments Earnings Reserve Fund

27. Beginning Value July 1 Restated		\$0.0	\$24.9	\$18.0	\$14.8	\$17.7
28. Lands Contributions		38.2	17.6	15.4	17.0	16.6
29. Lands Expenses		(3.4)	(4.2)	(4.6)	(4.2)	(4.5)
30. Income from Investments	15.2	10.1	6.1	4.9	5.5	6.4
31. EFIB Expenses		(.6)	(1.3)	(1.1)	(.9)	(1.1)
32. Change in Market Value		1.3	(3.1)	2.1	2.9	1.7
33. Distributions to beneficiaries	(15.2)	(20.8)	(22.0)	(19.9)	(17.4)	(14.4)
34. Ending Pooled Earnings Reserves Fund	\$0.0	\$24.9	\$18.0	\$14.8	\$17.7	\$22.4

35. Investment Performance Reported by EFIB	NA	-10.3%	-8.2%	1.7%	16.8%	9.8%
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Endowment Fund Investment Board

Agency Profile

Analyst: Houston

Endowment Distributions to the Beneficiaries

On September 1, 2005, the Endowment Fund Investment Board (EFIB) submitted their budget request to the Division of Financial Management and the Legislative Services Office. The budget contained the Land Board approved endowment distributions for FY 2007. For public schools, the FY 2007 recommendation is \$1.56 million or 6.8% more than the FY 2006 appropriation. However, the pooled endowment distribution is \$1.46 million or 11.5% less than this year.

Fiscal Year	Distributions to Beneficiaries			% Change from previous year			Spending Rule	
	Pooled	Public Schools	Total Pooled & Pub S	Pooled	Public Schools	Total Pooled & Pub S	Pooled	Public Schools
2007*	11,197,400	24,648,200	35,845,600	(11.5%)	6.8%	0.3%	5.0%	5.0%
2006*	12,655,800	23,087,100	35,742,900	(12.3%)	0.6%	(4.4%)	6.0%	5.0%
2005	14,436,910	22,957,800	37,394,710	(16.8%)	(39.2%)	(32.1%)	7.0%	5.0%
2004	17,355,000	37,750,000	55,105,000	(12.9%)	1.9%	(3.3%)	7.5%	7.5%
2003	19,925,000	37,056,500	56,981,500	(9.3%)	(22.3%)	(18.2%)	7.5%	7.5%
2002	21,965,000	47,675,000	69,640,000	5.9%	6.7%	6.4%	8.0%	8.0%
2001	20,750,000	44,700,000	65,450,000	7.9%	4.6%	5.6%	8.5%	8.5%
2000	19,225,283	42,753,811	61,979,094	12.4%	3.4%	6.1%	Note1: Post reform distributions are based on a percent to the 3-year moving average of the permanent funds. The FY 2003 Public School payout was short of 7.5% rule by \$6.25 million.	
1999	17,106,900	41,331,115	58,438,015	5.6%	3.2%	3.9%		
1998	16,196,150	40,040,799	56,236,949	2.1%	10.7%	8.1%		
1997	15,859,342	36,159,798	52,019,140	7.6%	15.2%	12.8%		
1996	14,740,394	31,378,096	46,118,490	9.8%	3.1%	5.2%		
1995	13,426,310	30,426,255	43,852,565					

Fiscal Year	Agricultural College	Charitable Institutions ¹	Normal School ²	Penitentiary	School of Science	Mental Hospital	University of Idaho	Total Pooled
2007*	661,200	2,361,300	2,115,700	809,300	2,375,800	1,051,500	1,822,600	11,197,400
2006*	(2,130,000)	(2,470,000)	3,205,600	2,444,800	2,848,500	5,291,400	3,465,500	12,655,800
2005	380,400	1,407,450	2,969,624	1,509,520	3,136,900	1,874,720	3,158,296	14,436,910
2004	960,000	3,430,000	3,195,000	1,215,000	3,785,000	1,660,000	3,110,000	17,355,000
2003	1,139,000	4,070,000	3,695,000	1,358,000	4,254,000	1,905,000	3,504,000	19,925,000
2002	1,280,000	4,673,000	4,068,000	1,566,000	4,709,000	2,024,000	3,645,000	21,965,000
2001	1,127,000	4,502,000	3,788,000	1,521,000	4,479,000	1,845,000	3,488,000	20,750,000
2000	964,277	3,806,215	3,870,068	1,251,157	3,778,442	2,462,520	3,092,604	19,225,283
1999	873,990	3,840,734	3,312,164	1,200,994	3,535,388	1,716,600	2,627,030	17,106,900
1998	888,342	3,395,470	3,158,530	1,122,762	3,096,427	1,944,081	2,590,538	16,196,150
1997	819,356	3,586,560	3,214,554	1,122,666	3,244,258	1,394,933	2,477,015	15,859,342
1996	770,790	3,132,278	2,721,294	1,282,320	2,806,409	1,581,336	2,445,967	14,740,394
1995	722,892	2,850,557	2,441,476	1,148,952	2,506,060	1,408,037	2,348,336	13,426,310

* Estimates

¹ Charitable Institutions: 4/15 Idaho State University, 4/15 State Juvenile Corrections Center, 4/15 State Hospital North, 5/30 Veterans Home, and 1/30 School for the Deaf and the Blind.

² Normal School: 1/2 to ISU College of Education and 1/2 to Lewis Clark State College.

Note 2: FY 2001 was the first year after endowment reform. Before that, timber revenues were deposited to the permanent fund and lease and interest revenues were distributed to the beneficiaries. Since reform, interest, lease income, and timber revenues have been put into the earnings reserve and distributions to the beneficiaries have been based on the values of the permanent funds. In January of 2005, the EFIB suspended distributions to the Ag College and Charitable Institutions due to negative balances in the Earnings Reserves. The Joint Finance-Appropriations Committee adjusted the FY 2005 and FY 2006 appropriations to keep the overall support as anticipated except for 6-mos FY 2005 reductions to Deaf and Blind (\$46,915) and Veterans Services (\$234,575).

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Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2006 Original Appropriation	4.00	0	568,200	4.00	0	568,200
HB 395 One-time 1% Salary Increase	0.00	0	3,200	0.00	0	3,200
Omnibus CEC Supplemental	0.00	0	0	0.00	0	3,400
FY 2006 Total Appropriation	4.00	0	571,400	4.00	0	574,800
Removal of One-Time Expenditures	0.00	0	(22,800)	0.00	0	(22,800)
FY 2007 Base	4.00	0	548,600	4.00	0	552,000
Benefit Costs	0.00	0	4,600	0.00	0	(2,200)
Inflationary Adjustments	0.00	0	3,900	0.00	0	3,900
Replacement Items	0.00	0	11,000	0.00	0	10,400
Statewide Cost Allocation	0.00	0	32,100	0.00	0	32,100
Change in Employee Compensation	0.00	0	3,000	0.00	0	5,600
FY 2007 Program Maintenance	4.00	0	603,200	4.00	0	601,800
1. Dedicated Fund Shift	0.00	0	0	0.00	0	0
2. Continuous Appropriation	0.00	0	0	0.00	0	0
3. Manager of Investments Salary	0.00	0	26,900	0.00	0	26,900
4. Administrative Assistant Salary	0.00	0	23,800	0.00	0	23,800
FY 2007 Total	4.00	0	653,900	4.00	0	652,500
Change from Original Appropriation	0.00	0	85,700	0.00	0	84,300
% Change from Original Appropriation			15.1%			14.8%

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2006 Original Appropriation	4.00	0	568,200	0	568,200

HB 395 One-time 1% Salary Increase

Reflects a one-time 1% Change in Employee Compensation (CEC) increase.

Agency Request	0.00	0	3,200	0	3,200
Governor's Recommendation	0.00	0	3,200	0	3,200

Omnibus CEC Supplemental

Agency Request	0.00	0	0	0	0
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The Governor's FY 2007 recommendation is a 3% ongoing increase in employee compensation (CEC), based on merit, to commence in FY 2006 with the January 29 pay period. This will allow agencies to fund employee compensation increases for ten pay periods prior to the end of the current fiscal year. Funding for the remaining 16 pay periods is provided in the FY 2007 CEC.

Governor's Recommendation	0.00	0	3,400	0	3,400
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FY 2006 Total Appropriation					
Agency Request	4.00	0	571,400	0	571,400
Governor's Recommendation	4.00	0	574,800	0	574,800

Removal of One-Time Expenditures

Removes \$3,200 provided for HB395, \$12,100 for the 27th pay period, and \$7,500 for other one-time items.

Agency Request	0.00	0	(22,800)	0	(22,800)
Governor's Recommendation	0.00	0	(22,800)	0	(22,800)

FY 2007 Base					
Agency Request	4.00	0	548,600	0	548,600
Governor's Recommendation	4.00	0	552,000	0	552,000

Benefit Costs

Includes the employer-paid portion of estimated changes in employee benefit costs. The two biggest factors are health insurance rates and retirement rates. Health insurance is projected to increase by 6.1% or \$436 per position. Retirement rates are scheduled to increase by 5.9% from 10.39% to 11% of salary for regular employees. Other benefit changes include minor adjustments in unemployment insurance rates and workers compensation rates.

Agency Request	0.00	0	4,600	0	4,600
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Removes the PERSI rate increase and changes benefit costs to reflect a 3.5% or \$250 per FTP increase in health insurance costs. However, the change in health insurance providers, from Blue Shield to Blue Cross, has created a one-time opportunity to use unexpended reserves from the previous contract. This decision unit provides for a health insurance premium reduction equal to two month's premiums for both the employer and employee. Finally, a life insurance holiday is included equal to seven month's premium for the employer's share only.

Governor's Recommendation	0.00	0	(2,200)	0	(2,200)
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Inflationary Adjustments

Includes a general inflationary increase of 1.9% in operating expenditures and trustee/benefit payments.

Agency Request	0.00	0	3,900	0	3,900
Governor's Recommendation	0.00	0	3,900	0	3,900

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
Replacement Items					
Replacement items include \$3,600 for two computers, \$3,800 for a printer, \$1,600 for two chairs, and \$2,000 for a digital recording system to record board meetings.					
Agency Request	0.00	0	11,000	0	11,000
<i>The Governor removes \$600 from the two computers providing \$1,500 for each instead of \$1,800 for each.</i>					
Governor's Recommendation	0.00	0	10,400	0	10,400

Statewide Cost Allocation					
The Statewide Cost Allocation Plan assesses state agencies for their actual use of Attorney General, State Controller and State Treasurer services and includes changes in property and casualty insurance premiums. This request includes \$31,400 for Attorney General fees and \$700 for Controller fees,					
Agency Request	0.00	0	32,100	0	32,100
Governor's Recommendation	0.00	0	32,100	0	32,100

Change in Employee Compensation					
Calculated cost of a 1% salary increase for permanent and group positions.					
Agency Request	0.00	0	3,000	0	3,000
<i>Provides funding for the remaining 16 pay periods to annualize the 3% ongoing change in employee compensation recommended in the omnibus CEC supplemental.</i>					
Governor's Recommendation	0.00	0	5,600	0	5,600

FY 2007 Program Maintenance					
Agency Request	4.00	0	603,200	0	603,200
Governor's Recommendation	4.00	0	601,800	0	601,800

1. Dedicated Fund Shift		Endowment Fund Investment Board			
The request includes a fund shift of \$4,200 from the Endowment Administrative Fund to the State Insurance Fund to reflect an increase in the percentage of the State Insurance Fund's portion of the portfolio from 31.95% in FY 2006 to 33.18% in FY 2007.					
Agency Request	0.00	0	0	0	0
<i>Recommended by the Governor.</i>					
Governor's Recommendation	0.00	0	0	0	0

2. Continuous Appropriation					
The Endowment Fund Investment Board requests a continuous appropriation for consulting fees, bank custodial fees, and portfolio-related external costs. The variable costs associated with these services depend on the size of the portfolio and the turnover of investments. This uncertainty makes budgeting difficult. Legislative intent included in the appropriation bill allows the Legislature to re-evaluate the need for a continuous appropriation on an annual basis and to consider a fixed appropriation should the costs be determined to be more predictable. Actual costs paid through the continuous appropriation for FY 2001 were \$1,327,421 (the first full-year after endowment reform), \$3,215,995 for FY 2002, \$2,528,072 for FY 2003, \$2,178,500 for FY 2004, and \$2,603,623 for FY 2005.					

Language Requested: The Endowment Fund Investment Board is hereby granted continuous appropriation authority for consulting fees, bank custodial fees, and portfolio-related external costs for the period July 1, 2006, through June 30, 2007.

Agency Request	0.00	0	0	0	0
<i>Recommended by the Governor.</i>					
Governor's Recommendation	0.00	0	0	0	0

Endowment Fund Investment Board

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
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3. Manager of Investments Salary

During the search for a new Manager of Investments this summer, the Board felt there was a need to fund the position at the top of paygrade V in order to provide the Board the latitude to attract a quality manager and provide future salary increases. Currently the position is funded at \$108,600 for salary and \$29,800 for benefits for a total of \$138,400. Approval of this decision unit would increase funding to \$131,900 for salary and \$34,400 for benefits for a total of \$165,300. The \$26,900 budget request is split 33% State Insurance Fund and 67% Endowment Administrative Fund. [Ongoing]

Agency Request	0.00	0	26,900	0	26,900
Governor's Recommendation	0.00	0	26,900	0	26,900

4. Administrative Assistant Salary

Partial year funding was removed in the FY 2005 budget when the Administrative Assistant position was filled with a part-time employee; however, the FTP remained in the budget. This request would allow the Endowment Fund Investment Board to bring the part-time position back to full-time funding. Currently the position is funded at \$18 an hour for 24 hours per week for a total of \$35,000. The Endowment Fund Investment Board seeks to fund the position at the midpoint of Grade G or \$15.40 per hour for 2080 hours. That amounts to \$32,100 salary and \$14,600 benefits for a total of \$46,700 or a difference of \$11,700. The \$23,800 budget request is split 33% State Insurance Fund and 67% Endowment Administrative Fund. [Ongoing]

Agency Request	0.00	0	23,800	0	23,800
Governor's Recommendation	0.00	0	23,800	0	23,800

FY 2007 Total

Agency Request	4.00	0	653,900	0	653,900
Governor's Recommendation	4.00	0	652,500	0	652,500

Agency Request

Change from Original App	0.00	0	85,700	0	85,700
% Change from Original App	0.0%		15.1%		15.1%

Governor's Recommendation

Change from Original App	0.00	0	84,300	0	84,300
% Change from Original App	0.0%		14.8%		14.8%